

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF CAWOOD WATER DISTRICT)	CASE NO.
FOR AN ALTERNATIVE RATE ADJUSTMENT)	2017-00309
)	

ORDER

On July 21, 2017, Cawood Water District (“Cawood District”) tendered an application (“Application”) with the Commission pursuant to 807 KAR 5:076 requesting to adjust its rates for water service. By letter dated August 18, 2017, the Commission notified Cawood District that the Application was deemed filed. In its Application, Cawood District requested rates that would increase the monthly bill of a typical residential customer by \$10.15, from \$34.40 to \$44.55, or approximately 29.50 percent, for its Cawood General Service Area, and by \$2.94, from \$41.61 to \$44.55, or approximately 7.06 percent, for its Pathfork Service Area.

On October 11, 2017, a telephonic informal conference was held between Commission Staff (“Staff”) and Cawood District representatives to allow Staff to question Cawood District regarding its request to unify its rate structure.

Pursuant to the procedural schedule adopted by Order on August 18, 2017, on November 14, 2017, Staff issued a report (“Report”) summarizing its findings regarding Cawood District’s requested rate adjustment. In its Report, Staff found that Cawood District’s adjusted test-year operations support an overall revenue requirement of \$925,257 and that an annual revenue increase of \$134,850, or 18.58 percent, is necessary to generate the overall revenue requirement. Staff further found that

Cawood District should change the depreciable lives assigned to certain assets when calculating depreciation for accounting and ratemaking purposes.

On November 29, 2017, Cawood District filed with the Commission its comments on Staff's report wherein it accepted Staff's findings. Cawood District did not request that a conference or hearing be held.¹

WATER LOSS

The Commission notes that Staff, in its Report, calculated Cawood District's unaccounted-for water loss to be 46.04 percent. Commission regulation 807 KAR 5:066, Section 6(3), states that for ratemaking purposes a utility's unaccounted-for water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. Reduction of Cawood District's unaccounted-for water loss to 15 percent would result in an approximate \$42,780² decrease to its cost of water.

¹ Letter from Howard Farmer, Jr., Chairman, Cawood Water District, to Gwen R. Pinson, Executive Director, Public Service Commission (Nov. 29, 2017).

²

Purchased Water	\$ 35,306
Purchased Power for Pumping	63,397
Chemicals	<u>39,119</u>
Cost of Water	137,822
Times: Line Loss Above 15 Percent	<u>31.04%</u>
Expense Reduction to Cost of Water	<u>\$ 42,780</u>

Potentially, Cawood District is paying \$0.52 per 1,000 gallons sold³ for expenses associated with unaccounted-for water loss greater than 15 percent.

The Commission is placing greater emphasis on monitoring utilities that consistently exceed the 15 percent unaccounted-for water loss threshold and strongly encourages Cawood District to pursue reasonable actions to reduce its unaccounted-for water loss. Failure by Cawood District to make significant progress towards reducing unaccounted-for water loss may cause the Commission to pursue additional action with the utility.

BACKGROUND

Cawood District is a water district organized pursuant to KRS Chapter 74. It owns and operates a water distribution system through which it provides water service to approximately 1,621 customers in Harlan County, Kentucky.⁴ Cawood District's last application for rate adjustment was in Case No. 1999-00362,⁵ or approximately 18 years ago.

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Divide by: Expense Reduction	\$ 42,780
2015 Gallons Sold (in 000s)	<u>82,005</u>
Cost per Gallon Sold	<u>\$ 0.52</u>

⁴ *Annual Report of Cawood Water District to the Public Service Commission for the Calendar Year Ended December 31, 2015* ("Annual Report") at 12 and 53.

⁵ Case No. 1999-00362, *In the Matter of the Alternative Rate Filing of Cawood Water District* (Ky. PSC Sep. 3, 1999).

TEST PERIOD

The calendar year ended December 31, 2015, was used as the test year to determine the reasonableness of Cawood District's existing and proposed water rates, as required by 807 KAR 5:076, Section 9.

SUMMARY OF REVENUE AND EXPENSES

Based on the findings of the Staff Report, Cawood District's pro forma operations should be as follows:

	<u>2015 Annual Report</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Operations</u>
Operating Revenues	\$ 794,751	\$ (4,528)	\$ 790,223
Operating Expenses	<u>917,596</u>	<u>(124,869)</u>	<u>792,727</u>
Net Operating Income	(122,845)	120,341	(2,504)
Interest Income	<u>184</u>	<u></u>	<u>184</u>
Income Available for Debt Service	<u>\$ (122,661)</u>	<u>\$ 120,341</u>	<u>\$ (2,320)</u>

MODIFICATIONS TO STAFF'S FINDINGS

Cawood District proposed one adjustment to revenues to reflect current and expected operating conditions. In its Report, Staff proposed additional adjustments. The Commission accepts the findings contained in the Staff Report.

REVENUE REQUIREMENTS

Based upon the Commission's findings and determinations herein, Cawood District requires an increase in revenues of \$134,850, or 18.58 percent above pro forma present rate revenues, as shown below:

Pro Forma Operating Expenses	\$ 792,727
Plus: Average Annual Principal and Interest Payments	110,442
Additional Working Capital	<u>22,088</u>
Overall Revenue Requirement	925,257
Less: Other Operating Revenue	(64,371)
Interest Income	<u>(184)</u>
Revenue Required from Rates	860,702
Less: Pro Forma Present Rate Service Revenues	<u>(725,852)</u>
Required Revenue Increase	<u>\$ 134,850</u>
Percentage Increase	<u>18.58%</u>

RATE DESIGN

Cawood Water District proposed to unify rates between the Cawood General Service Area and Pathfork Service Area and to change the rate design without a cost-of-service study (“COSS”). In response to Staff’s First Request for Information (“Staff’s First Request”), Cawood District chose not to perform a COSS and to amend its application to change its proposed rates and rate structure.

The Commission finds that in the absence of a COSS, the across-the-board method as proposed by Staff is an appropriate and equitable method to allocate the increased cost to Cawood District’s customers. The rates in the Appendix attached to this Order will produce water rate revenues of approximately \$860,702. The revenue required is determined by the Commission herein to be reasonable. The monthly bill of a typical residential customer using 4,000 gallons will increase from \$34.40 to \$40.82, or 18.66 percent, for its Cawood Service Area, and from \$41.61 to \$49.35, or 18.60 percent, for its Pathfork Service Area.

In the Application, Cawood District proposed to increase the non-recurring charges for Tap-On Fees and Connection/Turn-On Charge and to establish new non-recurring charges for a Meter Re-Read Charge, a Meter Re-Setting Charge, and a Meter Test Charge. The Commission finds that the requested increases and the establishment of the new nonrecurring charges are reasonable and are included in the Appendix attached to this Order.

The Commission, after consideration of the evidence of record and being otherwise sufficiently advised, finds that:

1. The findings contained in the Staff Report are supported by the evidence of record and are reasonable.

2. The Commission has historically used a debt service coverage (“DSC”) method to calculate the revenue requirement for water districts or associations with outstanding long-term debt. Application of the Commission’s DSC method to Cawood District’s pro forma operations results in an Overall Revenue Requirement of \$925,257. A revenue increase of \$134,850 from water service rates is necessary to generate the overall revenue requirement.

3. The water service rates proposed by Cawood District should be denied.

4. The water service rates set forth in the Appendix to this Order are fair, just, and reasonable and should be approved.

IT IS THEREFORE ORDERED that:

1. The findings contained in the Staff Report are adopted and incorporated by reference into this Order as if fully set out herein.

2. The general service rates proposed by Cawood District are denied.

3. The rates set forth in the Appendix to this Order are approved for services rendered by Cawood District on and after the date of this Order.

4. The nonrecurring charges as set forth in Appendix to this Order are approved.

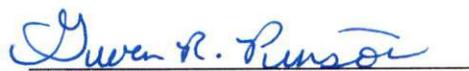
5. Within 20 days of the date of this Order, Cawood District shall file with this Commission, using the Commission's electronic Tariff Filing System, new tariff sheets setting forth the rates and charges approved herein and their effective date, and stating that the rates and charges were authorized by this Order.

6. Cawood District shall use the mid-point of the depreciable lives of the National Association of Regulatory Utility Commissioners ranges, as proposed by Staff, to depreciate water plant assets for accounting purposes in all future reporting periods. No adjustment to accumulated depreciation, or retained earnings should be made to account for this change in the accounting estimate.

By the Commission



ATTEST:


Executive Director

Case No. 2017-00309

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00309 DATED **DEC 14 2017**

The following rates and charges are prescribed for the customers in the area served by Cawood Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

Cawood General Service Area

First	2,000 Gallons	\$24.38	Minimum bill
Next	8,000 Gallons	8.22	per 1,000 Gallons
Over	10,000 Gallons	5.86	per 1,000 Gallons

Path Fork Service Area

First	2,000 Gallons	\$27.81	Minimum bill
Next	8,000 Gallons	10.77	per 1,000 Gallons
Over	10,000 Gallons	8.40	per 1,000 Gallons

Non-Recurring Charges

Tap-On Fees - 5/8- X 3/4-Inch Meter	\$750.00
Connection/Turn-On Charge	35.00
Meter Re-Read Charge	35.00
Meter Re-Setting Charge	35.00
Meter Test Charge	50.00

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